British Columbia
Seafood Sector and Tidal Water
Recreational Fishing:
A Strengths, Weaknesses, Opportunities,
and Threats Assessment

The Queen Charlotte Islands Fishing Lodge Industry

Prepared for:

BC Ministry of Agriculture, Food and Fisheries
Victoria, BC

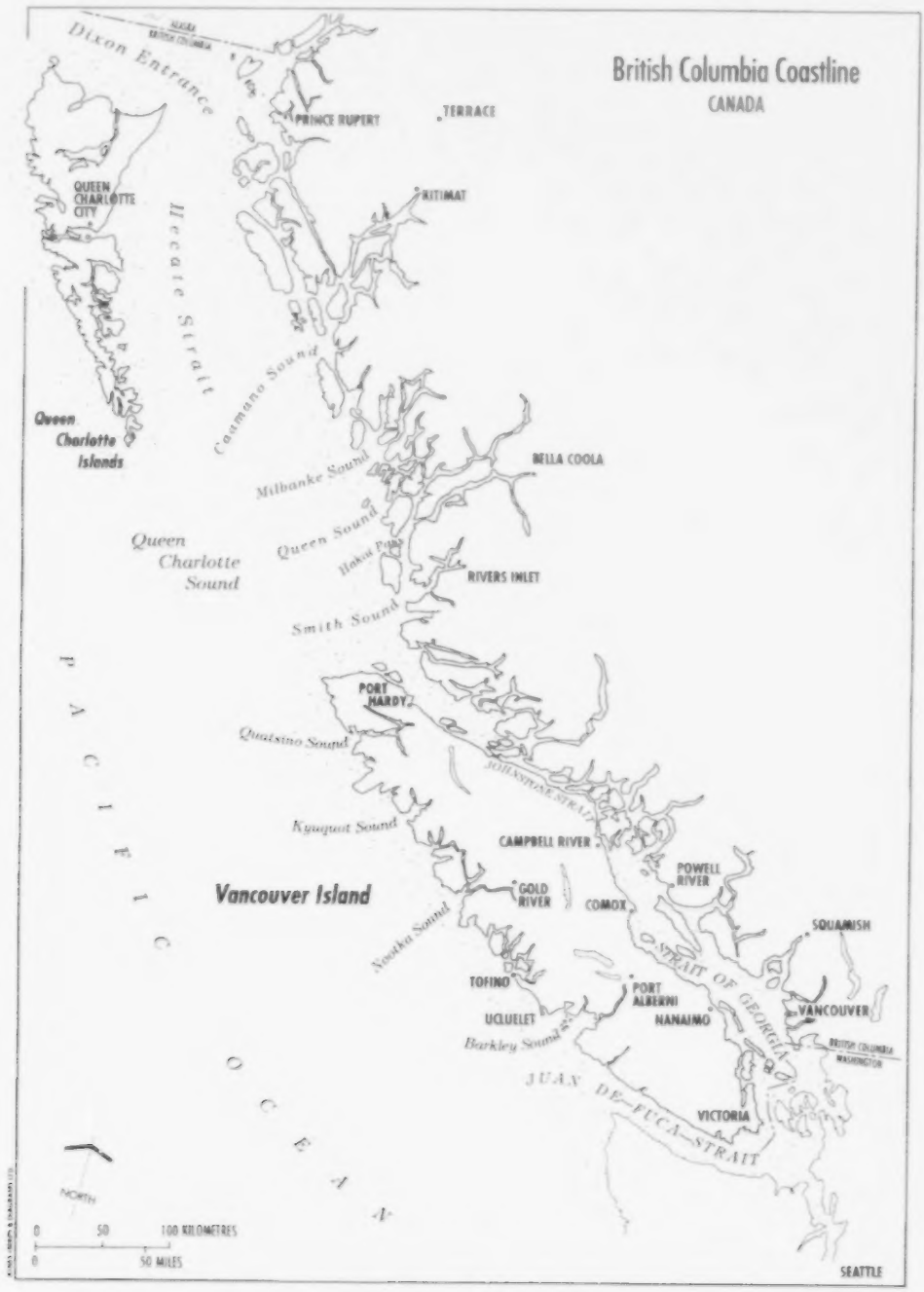
Prepared by:

GSGislason & Associates Ltd.
Vancouver, British Columbia
Canada

December 2003

105-05675/

Map of BC Coastline



Preface

This report has been prepared for the BC Ministry of Agriculture, Food and Fisheries (MAFF) as part of a larger study on the BC seafood and tidal recreational fishing sectors, a Strengths-Weaknesses-Opportunities-Threats (SWOT) business planning study.

The consultants have benefited from discussions with industry, government, and others. In particular, we thank the lodge owners who participated in the survey. Notwithstanding this assistance, the authors have final responsibility for the analysis and conclusions of the report.

Table of Contents

PREFACE I

1.0 INTRODUCTION AND BACKGROUND 1
- Report Objectives 1
- Survey Design and Procedures 1

2.0 2002 LODGE SECTOR PROFILE 3
- Operations Profile 3
- Employment and Wages 6
- Financial Performance 6

3.0 BENEFITS TO THE BC AND CANADIAN ECONOMIES 7
- Benefits from Expenditures at Lodges 7
- Additional Guest Expenditures 8
- Spinoff Effects 8

4.0 ECONOMIC BENEFITS TO THE QUEEN CHARLOTTE ISLANDS 9
- Local Wages and Employment in Lodges 9
- Local Purchases by Lodges 11
- Local Purchases by Lodge Clients 11

5.0 BUSINESS ENVIRONMENT AND ISSUES 11
- A High Risk, High Fixed Cost Industry 12
- The Marketplace is Highly Competitive 12
- Key to Viability is High Occupancy 13
- The Strengthening of the Canadian Dollar Hurts 13
- Cost Pressures are a Concern 13
- Regulatory Uncertainty Still Exists 13
- Cooperation and Co-Management with DFO 14

6.0 CONCLUSIONS 14

1.0 Introduction and Background

The Queen Charlotte Islands (QCI) or Haida Gwaii, its aboriginal name, is a pristine wilderness setting. The area is sparsely populated and is renowned worldwide for its magnificent vistas, unspoiled shoreline, and as the centre of Haida culture. Exceptional quality angling opportunities are available.

Anglers can fish for an abundance of large, trophy-size chinook and coho salmon, other salmon (pink, sockeye, and chum), halibut, lingcod, and rockfish. The outstanding angling opportunities combined with the magnificent setting means that the recreational fishing lodges in the QCI can provide a world-class destination attraction.

There is no current operating and financial profile of QCI recreational fishing lodges. A profile of fishing lodges for the year 1994 was conducted as part of a larger 1996 study that addressed the economic importance of salmon to the commercial and recreational fisheries in BC. A detailed survey of lodge operations provided the foundation for that profile. However, substantial changes in the fishing lodge sector have since occurred. There is a need to update the 1994 survey and profile to reflect accurately the current situation.

Report Objectives

The objectives of this report are threefold:

- to profile the QCI fishing lodge operations for 2002 including their revenue and client base, employment and salaries, and expenditure patterns;
- to compare and contrast the 2002 and 1994 lodge sectors; and
- to describe the business environment and key issues facing the sector.

Survey Design and Procedures

The cornerstone of this study is a survey of lodge operations. With the co-operation and assistance of the Sport Fishing Institute (SFI) of BC, the consultant designed and pre-tested a four page survey questionnaire. The final survey was sent to each lodge operation in the Queen Charlotte Islands. Companies that own more than one lodge were requested to complete separate surveys for each operation.

Seventeen (17) responses were received. These seventeen lodges represent over 90% of the total angler-days at all QCI fishing lodges in 2002.

Information on catch and effort for all fishing lodges in total was available through the lodge logbook program of the federal Department of Fisheries and Oceans (DFO). DFO has conducted this program with the cooperation of the QCI fishing lodge sector for over ten years (see Exhibit 1). The results of the survey were scaled to provide estimates of total lodge sector revenue, employment and other parameters.

Exhibit 1: Angling Catch and Effort in QCI Fishing Lodges 1999 to 2002

Year	Angler-Days	Catch (Pieces)								
		Chinook	Sockeye	Coho	Pink	Chum	Halibut	Lingcod	Rockfish	Total
1999	41,124	21,606	28	1,567	3,263	136	8,773	3,860	7,492	46,725
2000	39,321	16,643	28	7,472	3,234	536	9,159	4,744	6,974	48,790
2001	46,259	20,432	22	25,343	2,154	377	7,916	5,165	4,757	66,166
2002	48,930	32,368	11	23,639	963	285	9,479	6,328	6,716	79,789

Source: DFO Logbook Program

2.0 2002 Lodge Sector Profile

In 2002, the fishing lodge sector in the QCI consisted of 18 active lodges – 8 land- or shore-based and 10 floating. Several lodges are located on or around Langara Island off the northern tip of Graham Island. (See Exhibit 2 for a list of lodges and their locations.)

The season lasts for four months from mid May through mid September. The peak season is late June through late August. Exhibit 3 provides estimated operating, employment, and financial information for the aggregate QCI fishing lodge sector in 2002.

Operations Profile

In 2002, the 18 fishing lodges in the Queen Charlotte Islands had an estimated:

- 519 client beds,
- 13,300 overnight clients fishing 51,000 days (58% using a guide),
- client mix split equally between Canadian residents and non-residents (45% Canada, 55% US and offshore), and
- 46% of clients comprising corporate or business groups.

Some lodges reported an increase in couples and families in their clientele mix in recent years. As well, the share of guided client has increased.

Lodges typically offer all-inclusive packages that include transportation to and from Vancouver, all meals (the "American Plan"), accommodation, use of boat and fuel, and fishing gear. Some packages may include guide services, with two clients to one boat and guide. A lodge will provide transportation on chartered aircraft to either Sandspit or Masset where the client transfers to a helicopter or float plane to access the remote lodge.

Available packages are either four days-three nights or five days-four nights. By offering each package once a week, lodges are able to turn each client bed twice a week while fully utilising their facilities.

One QCI lodge that is promoting catch-and-release angling is purchasing salmon from commercial trollers and having it custom-processed in the QCI. The lodge provides the processed fish at no additional charge to its catch-and-release clients.

Exhibit 2: 2002 Inventory of Recreational Fishing Lodges in the QCI

	Name		Location	Lodge Type	Client Beds
1.	Charlotte Queen Adventures		Nesto Inlet	Floating	12
2.	Langara Fishing Adventures	- Langara Fishing Lodge	Langara Island	Floating	65
3.		- Langara Island Lodge	Langara Island	Land-based	28
4.		- Kumdis River Lodge	Masset Inlet	Land-based	8
5.	Naden Lodge		Masset	Land-based	10
6.	Oak Bay Marine Group	- Charlotte Princess	Langara Island	Floating	30
7.		- Marabell*	Langara Island	Floating	26
8.		- Salmon Seeker	Kano Inlet	Floating	28
9.	Peregrine Lodge		Naden Harbour	Land-based	40
10.	Queen Charlotte Lodge		Naden Harbour	Land-based	74**
11.	Salmon Safaris		Sandspit	Land-based	18
12.	Samson Fishing Lodge		Naden Harbour	Floating	20
13.	West Coast Fishing Club	- North Island Lodge	Langara Island	Floating	24
14.		- The Clubhouse	Langara Island	Land-based	42
15.		- The Outpost	Graham Island	Land-based	12
16.	West Coast Resorts	- Lodge at Englefield Bay	Englefield Bay	Floating	44
17.		- Lodge at Tasu Sound	Tasu Sound	Floating	18
18.	Westwind Tugboat Adventures*		Langara Island	Floating	20

** Only operate part of the season in the QCI area.*

*** 16 of the 74 beds are on a charter boat associated with the lodge.*

Note: The DFO Logbook program for QCI Lodges excluded Kumdis River Lodge, Naden Lodge, Salmon Safaris, and Westwind Tugboat Adventures in 2002 (some of these are considered "charters" by DFO and covered by other logbook programs).

Exhibit 3: Overview of Queen Charlotte Fishing Lodges 2002

Operations	
No. of Operations	18
Total Client Beds	519
Total Client Base	
No. Clients	13,300
Angler-Days	51,000
Client Residence	
BC	20%
Other Canada	25%
US	51%
Overseas	4%
	100%
Client Type	
Corporate Groups	46%
Singles & Friends	33%
Couples Same Household	11%
Families & Other	10%
	100%
Share Guided	58%

Employment	
Total Jobs	
Seasonal/Field	425
Year-Round	95
	520
Employment PYs[1]	245

Income Statement ($ millions)	
Revenues	38.0
Expenses	
Wages, Salaries & Benefits[2]	9.3
Air & Other Transport	7.9
Repairs & Maintenance	1.6
Food & Beverage	2.4
Marketing, Promotion, etc.	1.5
Leases, Permits, Property Taxes	0.3
Fuel, Insurance, Supplies & Other	8.5
	31.5
Income Before Interest, Depreciation & Taxes	6.5

Investment ($ millions)	
Total To Date at Original Cost	48
2002 Capital Expenditures	4

1 *Person-years*

2 *Includes a wage to the owner-operator.*

Employment and Wages

The majority of lodge workers are full-time seasonal employees - guides, dockworkers, housekeeping staff, and cooks – who work at the remote lodge locations during the short four-month season. The total number of seasonal fishing lodge jobs in the Queen Charlotte Islands is estimated at 425. In addition, there are head office employees, usually in Vancouver or Victoria, who work year-round at marketing, office administration, and other functions. About 15% of the year-round employees work part-time. Year-round jobs are estimated to number 95.

	Jobs
Seasonal	425
Year-round	95
	520

The total number of QCI fishing lodge jobs is estimated at 520 jobs. If one converts the seasonal jobs into person-year (PY) equivalents, the fishing lodge sector is estimated to provide 245 PYs of employment.

The typical lodge field employee is paid from $1,800 to $2,500 per month depending on experience and, in addition, receives room and board. Fishing guides, ship captains, lodge managers, and executive chefs are paid more. Guides and lodge staff also earn tips or gratuities from lodge clients.

The total wage bill for the 245 person-years of seasonal and year-round lodge employment in 2002 was $9.3 million, or $38,000 per PY including benefits. Seasonal field workers are estimated to earn an additional $1.5 million in tips and gratuities.

Financial Performance

The year 2002 was good year for QCI fishing lodge sector; the client base, as measured in angler-days, was up 20% from 2000 levels (see Exhibit 1). This increase was attributable in large part to the increased availability of chinook salmon, the primary target species. Catches of chinook by QCI lodge guests doubled between 2000 and 2002 (see Exhibit 1).

The lodge sector in 2002 had:

- $38.0 million in revenues;
- $9.3 million in wages, salaries, and benefits paid;
- $22.2 million in other operating and fixed costs; and
- $6.5 million as a residual operating income (before interest, depreciation, and taxes).

The $6.5 million operating income, also called earnings before interest, taxes, depreciation, and amortization (EBITDA), represents 17% of the $38.0 million revenue base. The sector's capital structure – an estimated $48 million original cost investment – suggests that the sector needs an operating profit of 15% of sales or equivalently 5% net income before taxes to earn an adequate return on investment. That is, in 2002 the QCI lodge sector met its profitability target or benchmark.

However, 2002 was likely the best year financially for most lodges since 1994 (a few lodges reported 2001 as a better year than 2002). In the mid-to-late 1990s, poor ocean survival of salmon stocks led to decreased access to salmon by anglers as DFO restricted both angling catch limits and designated angling areas. Lack of clarity in newspaper articles and other mass media about salmon stocks and areas with restrictions caused confusion in the marketplace and further exacerbated a difficult situation. The result was a diminished client base and poor financial results by QCI lodges in the late 1990s.

In 1999, DFO gave the BC recreational fishing sector priority access to chinook and coho salmon. (DFO gave the commercial fishing sector priority access to sockeye, pink and chum salmon). In recent years, chinook and coho stocks have rebounded dramatically from the declines in the late 1990s. This resource improvement, together with the priority access policy has provided exceptional angling opportunities in the Queen Charlotte Islands.

3.0 Benefits to the BC and Canadian Economies

The QCI lodge sector provides significant benefits to the BC and Canadian economies.

Benefits from Expenditures at Lodges

The direct Gross Domestic Product or GDP impacts from 2002 QCI lodge activity are:

Wages inc. Tips	$10.8 million
Capital Return*	$6.8 million
Hotel Tax, PST, & GST	$2.5 million
Total GDP	$20.1 million

** Includes land lease & property taxes plus interest, depreciation, pre-tax profits.*

GDP is the combined return to labour and capital and is generally considered to be the best measure of the contribution of an activity or industry sector to the economy.

Part of the GDP flows as income taxes and payroll remittances (e.g., Employment Insurance, Canada Pension Plan, Workers' Compensation Board) to provincial and federal coffers. In addition, the two senior levels of government receive provincial hotel tax, provincial services tax on retail and liquor purchases, and federal Goods and Services tax (GST) that is levied by the operator to the lodge package price.

Hotel Tax	$0.3 million
PST	$0.1 million
GST	$2.1 million

QCI lodges charge Canadian guests the full 7% GST and foreign guests 3.5% GST since foreign visitors are eligible for GST rebates.

Over three quarters of lodge revenue flow from non-residents of BC (and over half of lodge revenue flow from non-residents of Canada). These "export" dollars represent a net injection of new money to the economy.

Additional Guest Expenditures

Lodge guests also spend additional monies in BC that do not flow through the lodge. Clients typically spend at least one night in a Vancouver area hotel and some clients pay to have their catch custom processed (canned, frozen, filleted, smoked, etc.). Clients buy a 5 day angling license - $16 for Canadians, $32 for non-Canadians (plus GST) - plus a Salmon Conservation Stamp for $6 (plus GST).

The lodge survey results suggest that the average lodge client spends additional $0.13 in BC over and above each dollar spent for the lodge package, a total of $5 million (10% of this or $0.5 million would be spent in QCI). Anglers from Calgary, Toronto and other Canadian locations also spend another $2 million getting to the Vancouver staging area for their fishing trip.

Spinoff Effects

Lodge operations also generate spin-off effects on the BC and Canadian economies through the purchases of goods and services, and from respending of wage incomes. These so-called multiplier effects typically add 50% to 100% to the direct impacts provided above.

4.0 Economic Benefits to the Queen Charlotte Islands

The local QCI economy benefits from fishing lodge activity and these benefits have been growing over time.

Local Wages and Employment in Lodges

Local employment and wages benefits are estimated as:

	2002
Local Jobs	115
Local Employment PYs	50
Local Wages*	$2.0 million

* *Includes $0.4 million in tips and gratuities.*

The 115 jobs in 2002 are triple the estimated 35 local lodge jobs in 1994 – see Exhibit 4. The increase in local jobs can be attributed to the fact that since 1994 one locally owned and staffed lodge in Masset has started and several companies have made concerted efforts to hire QCI residents.

For example, West Coast Resorts operates two lodges, has local (Haida) minority ownership, and provides substantial jobs for local residents. Another company, West Coast Fishing Club, operates three lodges and is the largest employer of local residents in the lodge sector. Perhaps two thirds or more of the 115 local QCI jobs accrue to First Nations people.

However, some lodges report that they have experienced challenges in recruitment, training, and performance of local QCI residents in adapting to the service industry critical to the destination tourism business. For this reason, some lodges prefer to use workers from Vancouver or Victoria to staff field positions.

One lodge operator suggested that the lodges work together and coordinate an April training session for potential local residents to work in the lodge industry.

Exhibit 4: The QCI Recreational Fishing Lodge Industry 1994 vs 2002

Total Lodge Sector	1994	2002
No. of Operations	13	18
No. of Client Beds	440	519
No. of Overnight Clients	10,600	13,300
Share Guided Clients	24%	58%
Revenues	$22.8 million	$38.0 million
Wage Bill[1]	$5.5 million	$9.3 million
Operating Profit[2]	$4.5 million	$6.5 million
Capital Investment to Date	$32 million	$48 million
Jobs	375	520
Employment PYs[3]	180	245
Local QCI Content		
No. Lodges with Local Ownership[5]	0	2
Local Wage Bill[1]	$0.3 million	$1.6 million
Other Local Lodge Expenditures[4]	<$1.5 million	$4.5 million
Local Jobs	35	115
Local Employment PYs[3]	15	50

1 *Excludes tips and gratuities but includes benefits.*

2 *Operating profit is earnings before interest, taxes, depreciation, and amortization (EBITDA).*

3 *PYs is person-years.*

4 *Includes non-wage operating and capital expenditures.*

5 *Ownership in whole or part.*

Source: This QCI Recreational Fishing Lodge Survey by GSGislason & Associates Ltd. and Gordon Gislason et al, "The Economic Value of Salmon: Chinook and Coho in British Columbia". Report Prepared by the ARA Consulting Group Inc., February 1996.

Local Purchases by Lodges

The results of the lodge survey indicate that lodges spent about $4.5 million locally in the QCI in 2002 (excluding wages).

		2002
Operating Expenditures	- Air & Other Transport	$2.1 million
	- Other	$2.1 million
Capital Expenditures		$0.3 million
		$4.5 million

Local Purchases by Lodge Clients

Lodge clients can spend money in the QCI on custom processing their catch, on souvenirs and art, and on other retail items. The survey results suggest that these additional expenditures amounted to $0.5 million in 2002. The figure is relatively modest because of the limited time guests spend outside the remote lodge environment.

The total local expenditures of $7.0 million - $2.0 million in lodge wages and tips, $4.5 million in lodge expenditures, and $0.5 million in client expenditures – provide a significant stimulus to the QCI economy of five thousand people. These local expenditures are expected to continue to grow. However, there are limits to growth in local sourcing of goods and services due to the isolation and very small size of the QCI economy.

5.0 Business Environment and Issues

The QCI lodge industry is a service business with a significant foreign client base. Accordingly, normal business practices such as closely following exchange rate fluctuations and tailoring the product to meet client demand apply to this industry.

However, the QCI lodge business model is also somewhat different from many other businesses. The industry relies heavily on a healthy natural resource and environmental setting and the government regulates resource access. The industry also operates in a very high cost remote location.

The QCI fishing lodge businesses provide the expectation and opportunity to catch fish. This product is affected by three main factors.

- the resource,
- government regulation, and
- internal and external business issues.

The lodge industry needs healthy fish stocks with strong resource management. It needs predictable, transparent, and fair regulations, that is, legal and policy certainty. Lodge operators must also have strong business and marketing skills, and a skilled workforce. Finally, external economic factors such as exchange rates and business cycles can have major impacts on the profitability of the operations.

A High Risk, High Fixed Cost Industry

QCI fishing lodges have a high share of fixed costs, such as airplane charter and field labour, in their cost structure e.g., the lodge pays the same air charter costs regardless of whether the plane is full or not. Accordingly, a remote lodge will require a very high occupancy rate, 90% or so, to breakeven (including a normal return on investment).

A lodge does not start to make a true profit until the last 10% of its beds are filled. In contrast most hotel and fixed roof accommodation facilities, including road-accessible fishing lodges, are able to turn a profit at occupancy rates often well below 80%.

The Marketplace is Highly Competitive

The QCI fishing lodge industry has many advantages. Clients have access to healthy fish stocks, large fish, and reasonable daily and possession catch limits. The Queen Charlotte Islands offers a premier wilderness setting and a cache or mystique recognised around the world. Canada is also seen as a relatively safe place to travel. Lodges provide first-class facilities for anglers.

For clients wishing to fish large .hinook and halibut, Alaska is the main competition. In recent years QCI lodges have enjoyed a 25% cost advantage over many Alaskan lodges (when one factors in the total cost of the fishing trip.)

At the same time, other lodges in BC, Mexico, Florida, or Alaska are more accessible especially to the American market. For example, non-stop air service is now available from Seattle to both Sitka and Ketchikan. Some US clients may prefer to travel within the US to avoid the going through Customs and Immigration. Lodges in more accessible areas can offer activities other than fishing and at lower price points. The selling point of QCI lodges, however, is the high end, all-inclusive fishing experience in a remote wilderness setting.

QCI lodges also face competition in the important corporate and incentive travel market segment from non-fishing alternatives, specifically golf. The corporate

market can be capricious with changes in company fortunes and senior management focus.

Key to Viability is High Occupancy

The key to viability is high occupancy rates. And the key to high occupancy is repeat business and word-of-mouth "goodwill" advertising. Often a client, on concluding the current trip, will leave a substantial deposit for next year's trip. To attract this repeat business requires attentive customer service and niche marketing.

Another key to viability is achieving full posted rates during the majority of the season. Recent years have seen some discounting and predatory pricing by operators. This practice alleviates short term cash flow pressures but at the expense of long term price structure for the entire sector.

The Strengthening of the Canadian Dollar Hurts

The increase in the value of the Canadian dollar compared to the US dollar in 2003 has increased the cost of QCI lodge packages to US clients and made QCI fishing packages less attractive from a price perspective. The full effect will not be felt until 2004 since deposits for the 2003 season were received prior to the strengthening of the Canadian dollar. In 2004 Alaska will become a more price competitive alternative.

Cost Pressures are a Concern

The industry has faced increasing costs of fuel, air charters, and insurance in recent years, costs which the industry often cannot pass on to the customer. Improved operational efficiencies especially in air charters are needed. However, the potential to achieve efficiencies is limited by the remoteness and high cost of the region.

Regulatory Uncertainty Still Exists

Over the past two to three years, DFO has given early signals to industry that the regulatory environment in terms of catch limits and allowable fishing areas and techniques will remain stable. This stability contrasts from the late 1990s when there were late announcements as to regulatory changes and considerable confusion and misinformation in the angler marketplace.

The recent regulatory stability together with improved resource levels and improved resource access through the priority chinook and coho allocation policy has helped the QCI lodge industry rebound from the downturn of the late 1990s. However, the possibility still exists that regulatory changes could occur midseason.

Another major concern is uncertainty over the process and results of aboriginal land claims negotiation in BC; the entire Queen Charlotte Islands is subject to land claims negotiation.

Cooperation and Co-Management with DFO

QCI fishing lodges have cooperated with DFO for many years on a lodge logbook program to record angler catches. The logbook program has generated substantial knowledge as to the impact of lodge operations on fish stocks and resource sustainability. The QCI lodge logbook program is the model for all other areas of British Columbia and is a concrete example of effective co-management in the recreational sector.

Many QCI lodges also cooperate with the Haida Watchman Program, a program under which QCI lodges allow on-site interviewers access to their guests and guest catches for creel survey and biological fish sampling activities. At least one lodge conducts biosampling of scales, DNA, fork length etc., and forwards the data to DFO. This program is expected to expand in the future.

6.0 Conclusions

The QCI fishing lodge sector has grown since 1994 in terms of number of operations, client base and revenues. Lodge revenues at $38 million in 2002 were more than 67% greater than in 1994.

Local jobs and the local wage bill have tripled since 1994. Several lodges have made concerted effort to hire local residents and to train some local residents for management positions. Many of the employees are aboriginal people. The buoyancy of the lodge industry contrasts with the downturn in the forest sector, a traditional mainstay of the Queen Charlotte Islands economy.

However, the QCI fishing lodge sector is a high risk, high cost industry that operates in a very competitive environment, is subject to regulatory and government uncertainty, and faces several daunting cost pressures and unfavourable currency fluctuations. The industry also has to be careful not to let unregulated growth and congestion diminish its product value. Prudent management and investment decisions are required.